



# NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

**SECURING ACCESS TO SUSTAIN PRESENCE AND  
OVERCOME CHINESE INFLUENCE IN THE INDO-PACIFIC**

by

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## ABBREVIATIONS

A2/AD	anti-access/area denial
APEC	Asia-Pacific Economic Cooperation
BDN	Blue Dot Network
C4ISR	Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance
DOD	Department of Defense
DCA	Development Credit Authority
DFC	International Development Finance Corporation
G-7	Group of Seven
G-20	Group of 20
INDOPACOM	Indo-Pacific Command
JICA	Japan International Cooperation Agency
OECD	Organization for Economic Co-operation and Development
OPIC	Overseas Private Investment Corporation
PNG	Papua New Guinea
PGII	Partnership for Global Infrastructure and Investment
PQI	Partnership for Quality Infrastructure
PLA	People’s Liberation Army
PLAN	PLA Navy
Quad	Quadrilateral Dialogue
USAID	U.S. Agency for International Development
USTDA	U.S. Trade and Development Agency

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## I. OVERVIEW

This study was undertaken to assess whether, where, and how the U.S. Navy can leverage newly created policy tools to compete with Chinese economic and diplomatic efforts to secure access to ports and logistics facilities in the Indo-Pacific region. Traditional tools of security assistance and cooperation were not designed to meet the type of challenge posed by China's Belt and Road Initiative (BRI). However, in 2019 the United States established the Development Finance Corporation (DFC) and joined with Australia and Japan to create the Blue Dot Network (BDN). These initiatives promised resources and official support for infrastructure development in lower income countries. Since then, others have been established, most notably the Partnership for Global Infrastructure and Investment (PGII). As new initiatives, their utility for achieving Navy-specific goals has not previously been examined. Yet with billions of dollars, bipartisan support, and a mandate to support infrastructure development and counter Chinese influence, these new initiatives present an opportunity to advance naval interests in the Indo-Pacific region.

This report is organized in four parts. After this introduction, part two assesses the main reasons for increasing competition over infrastructure investments in the Indo-Pacific. Above all, these include an increasing desire for access to ports and port-related facilities as to gain influence and to fulfill the requirements of new warfighting concepts. Part three identifies and describes the main U.S. and allied responses to China's strategic use of infrastructure investments. It highlights Japan's leading role as well as efforts to promote multilateral arrangements that maximize the impact of U.S., Japanese, Australian and other partners' resources.

Part four summarizes the findings and offer recommendations for the Navy. This study finds that the DFC is the most important new institution in this arena and the one whose mandate is overlaps most with the interests of the Navy. It is charged with supporting infrastructure development in lower income countries and, unlike traditional development banks, must ensure that its investments support U.S. foreign policy and national security interests. Annually, it makes commitments of about \$6 billion worldwide and has invested in ports, although not in the Indo-Pacific. The Navy should engage in the DFC's formal interagency process, the Development Finance Coordination Group, to advocate for investment in ports and port-related infrastructure in places of strategic interest.

## II. CHALLENGES

### A. INTRODUCTION

Over the last decade, two trends have collided in the Indo-Pacific. One is the U.S. military's commitment to dispersing its forces throughout the region. The second is China's effort to secure access to ports and logistics facilities, often by offering infrastructure investments through the Belt and Road Initiative (BRI). Together, these trends have intensified competition for access and influence, especially over ports and related infrastructure that can support the movement of vessels, personnel, and materiel. Although this competition occurs throughout the region, it is intensifying in the places known as the First and Second Island Chains.

### B. THE NEED TO DISPERSE U.S. FORCES

Pressure to distribute U.S. military forces has come mainly from China's ability to strike concentrations of U.S. forces anywhere within the First Island Chain, but especially those located at its Cold War-era bases in Northeast Asia. This capability has grown continually for nearly two decades.<sup>1</sup> By fielding a complex array of satellites, missiles, aircraft, and ships, China gradually has acquired an arsenal that is able to put U.S. and allied forces at risk throughout much of the Western Pacific.

Nearly a decade ago, it had already become clear that China's anti-access/area denial (A2/AD) capabilities were able to impose severe limits on U.S. forces' ability to operate from bases and ships within a several hundred miles of China's coast. For example, as early as 2015 RAND found that rapid improvements in the number, range, and accuracy of Chinese missiles were sufficient to close a U.S. airbase in Japan for days or even weeks at the start of a conflict over Taiwan or the South China Sea.<sup>2</sup> Even earlier, it had become clear that Chinese forces intended to target the ports and bases used by U.S. naval forces in Japan.<sup>3</sup>

In response to these developments, U.S. defense planners began to reconsider defense strategy, operational concepts, and force structure.<sup>4</sup> Initially, concepts like AirSea Battle

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<sup>1</sup> See, for instance, Andrew Krepinevich, Barry Watts, and Robert Work, *Meeting the Anti-Access and Area Denial Challenge* (Washington, DC: Center for Strategic and Budgetary Assessments, 2003), as well as the annual reports on China's military power that the DOD submits to Congress <https://china.usc.edu/uscis-collection-military-affairs-materials>.

<sup>2</sup> Eric Heginbotham, et al., *The U.S.-China Scorecard: Forces, Geography, and the Evolving Balance of Power 1996-2017* (Santa Monica: RAND, 2015).

<sup>3</sup> Toshi Yoshihara, "Chinese Missile Strategy and the U.S. Naval Presence in Japan," *Naval War College Review* vol. 63, no. 3 (2010).

<sup>4</sup> A good summary of early debates about dispersing forces in response to China's A2/AD capabilities is contained in Benjamin Jensen, "Distributed Maritime Operations: Back to the Future?" *War on the Rocks*,

focused on overcoming China's A2/AD capabilities mainly by using Naval and Air Force airpower to target Chinese missiles and the C4ISR<sup>5</sup> networks on which they rely.<sup>6</sup> In recent years, concepts have been developed that incorporate a greater role for land-based forces as well as sea-based assets that would operate in the littoral regions of the Western Pacific. This has been especially true in the case of Navy and Marine Corps, which have developed operational and warfighting concepts that require the distribution of their assets and personnel throughout the theater. These concepts include Expeditionary Advanced Base Operations, Littoral Operations in a Contested Environment, and Distributed Maritime Operations.<sup>7</sup>

Each of these concepts envisions forces that are less concentrated in traditional bases, especially in places like Japan and South Korea, and therefore are less vulnerable to Chinese attack. However, they also anticipate that a significant number of forces would maintain a presence in the First Island Chain, which links Japan to Taiwan and the Philippines, as well as three countries at the southern end of the South China Sea—Brunei, Indonesia, and Malaysia. This is most evident in the efforts of the Marine Corps and Army to “fill the role of stand-in forces in the first island chain,” where they would “fight alongside allies and friends.”<sup>8</sup> However, as senior Marine officers have noted, this role “requires increased attention to the physical locations—the forward installations—from which naval expeditionary forces will marshal, aggregate, rehearse, project, command and control, and sustain the force in any regional crisis or contingency.”<sup>9</sup>

Until recently, the need to secure access to a broader range of bases, ports, and logistics facilities was not an explicit priority among defense planners or legislative leaders. However, this has changed in the last few years. For example, the 2018 National Defense Strategy simply acknowledged that “Allies and partners . . . provide access to critical regions, supporting a widespread basing and logistics system that underpins the

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April 9, 2015, <https://warontherocks.com/2015/04/distributed-maritime-operations-an-emerging-paradigm/>.

<sup>5</sup> Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance

<sup>6</sup> “Air-Sea Battle: Service Collaboration to Address Anti-Access & Area Denial Challenges,” May, 2013, <https://dod.defense.gov/Portals/1/Documents/pubs/ASB-ConceptImplementation-Summary-May-2013.pdf>. The cover of this document indicates that it “is an unclassified summary of the classified Air-Sea Battle Concept, version 9.0, dated May 12 and the Air-Sea Battle Master Implementation Plan (FY13), dated Sep 12.”

<sup>7</sup> CNO NAVPLAN, January 2021, p. 8, <https://media.defense.gov/2021/Jan/11/2002562551/-1/-1/1/CNO%20NAVPLAN%202021%20-%20FINAL.PDF>.

<sup>8</sup> T.X. Hammes, *An Affordable Defense of Asia* (Washington, DC: The Atlantic Council, 2020), 18, <https://www.atlanticcouncil.org/wp-content/uploads/2020/06/An-Affordable-Defense-of-Asia-Report.pdf>. For more detail on this concept, see U.S. Marine Corps, “A Concept for Stand-in Forces,” December 2021, [https://www.hqmc.marines.mil/Portals/142/Users/183/35/4535/211201\\_A%20Concept%20for%20Stand-In%20Forces.pdf](https://www.hqmc.marines.mil/Portals/142/Users/183/35/4535/211201_A%20Concept%20for%20Stand-In%20Forces.pdf).

<sup>9</sup> Brigadier General William J. Bowers and Colonel Thomas D. Wood, “The Shield of the Indo-Pacific: Investment in Indo-Pacific installations is a strategic imperative,” *USNI Proceedings* November 2020, <https://www.usni.org/magazines/proceedings/2020/november/shield-indo-pacific>.

Department's global reach."<sup>10</sup> By contrast, the 2022 NDS has sharpened the focus on efforts the U.S. must take to enhance its access. It declares, "In the Indo-Pacific, we will continue key infrastructure investments and coordinate with the Department of State to expand access in the region."<sup>11</sup>

The clearest statement of the need to investment in infrastructure in order to enable the dispersion of U.S. forces has been made by recent commanders of INDOPACOM. In a statement to a Congressional committee in 2021, Admiral Philip Davidson listed "critical investments necessary to provide adequate dispersion to preserve deterrence options."<sup>12</sup> Apart from investments in U.S. territories, he emphasized the need to make investments in two parts of the Indo-Pacific. In Oceania, he called for investment in "alternative facilities for training and dispersion opportunities that increase airpower"; and in Southeast Asia, he said similar investments were needed to "support modernized and dispersed power projection airfields, sustain forward forces, and enhance logistics capability with prepositioned stores and infrastructure." The command's priorities remained the same after Admiral John Aquilino replaced Davidson in 2022. In his report to Congress on the command's priorities for FY23, he reiterated the importance of making the same type of investments, in the same two parts of the region, in order to support the dispersal of U.S. forces.<sup>13</sup>

Congress has embraced this requirement and even pressed the Administration to do more. In the FY2023 National Defense Authorization Act, Congress emphasized the importance of infrastructure development in the Indo-Pacific by nearly authorizing \$1.8 billion for that purpose; this amount was 50 percent larger than the Administration itself had requested.<sup>14</sup>

However, despite the size of this commitment, it does not address the need to enhance U.S. military access in places that are central to emerging operational and warfighting

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<sup>10</sup> "Summary of the 2018 National Defense Strategy of the United States of America: Sharpening the American Military's Edge," January 19, 2018, p. 8, <https://dod.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf>.

<sup>11</sup> U.S. Department of Defense, "2022 National Defense Strategy," October 2022, p. 13, <https://media.defense.gov/2022/Oct/27/2003103845/-1/-1/1/2022-NATIONAL-DEFENSE-STRATEGY-NPR-MDR.PDF>.

<sup>12</sup> "Statement of <sup>(SEP)</sup>Admiral Philip S. Davidson, U.S. Navy, Commander, U.S. Indo-Pacific Command before the Senate Armed Services Committee on U.S. Indo-Pacific Command Posture," March 9, 2021," p. 9, [https://www.armed-services.senate.gov/imo/media/doc/Davidson\\_03-09-21.pdf](https://www.armed-services.senate.gov/imo/media/doc/Davidson_03-09-21.pdf).

<sup>13</sup> "INDOPACOM, "Seize the Initiative: National Defense Authorization Act (NDAA) 2022 Section 1242 Independent Assessment," p. 5, [https://admin.govexec.com/media/1242\\_report.pdf](https://admin.govexec.com/media/1242_report.pdf).

<sup>14</sup> Congressional Research Service, "The Pacific Deterrence Initiative: A Budget Overview," January 9, 2023, p. 2. The Administration's budget request is contained in a report it submitted to Congress, "Pacific Deterrence Initiative," April 2022, p. 28, [https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2023/FY2023\\_Pacific\\_Deterrence\\_Initiative.pdf](https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2023/FY2023_Pacific_Deterrence_Initiative.pdf); the amounts Congress authorized are contained in the "Joint Explanatory Statement to Accompany the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023," November 29, 2022, pp. 302-303, [https://www.armed-services.senate.gov/imo/media/doc/fy23\\_ndaa\\_joint\\_explanatory\\_statement.pdf](https://www.armed-services.senate.gov/imo/media/doc/fy23_ndaa_joint_explanatory_statement.pdf).

concepts. For example, it does not provide for any specific investments in the First Island Chain except for Japan. In other words, it neglects the Southeast Asian countries that INDOPACOM commanders have identified as high priorities. Nor does it provide for investments in the Second Island Chain other than U.S. territories, such as Guam. In short, it provides funding for infrastructure in places where the U.S. Navy and Marine Corps already have access rather than aiming to expand the range of territories to which they enjoy access.

### C. CHINA’S QUEST FOR ACCESS AND INFLUENCE

U.S. efforts to distribute forces in the Indo-Pacific are colliding with—and increasingly responding to—Chinese efforts to acquire access and influence in the same region. At the strategic level, China’s approach is embodied in the Belt and Road Initiative (BRI), an expansive policy umbrella for an array of initiatives that span social, economic, and military domains. At its core, the BRI has been devoted to the financing and construction of physical infrastructure. And even though the BRI is global, its roots are in the Indo-Pacific. Indeed, President Xi Jinping made two trips in Asia in 2013 to announce the main components of the BRI—to Kazakhstan to publicize his efforts to build a land-based “economic belt along the Silk Road” and then to Indonesia where he promoted a “Maritime Silk Road of the 21<sup>st</sup> century.” In this vision, the “belt” would connect China to Europe by road and rail, while the “road” would connect China to the Middle East through Southeast Asia and the Indian Ocean.<sup>15</sup>

The financing and construction of port projects have been among the most notable features of the BRI. Numerous studies have presented evidence that Chinese banks, construction companies, and port operators have increased their involvement in ports throughout the world over the past decade. By some common estimates, Chinese entities are involved—as lenders, builders, or operators—in nearly 100 ports outside of China.<sup>16</sup> A small number of ports have garnered the most attention because of their strategic locations and the extent of Chinese control over them. These include ports in Djibouti, Pakistan (Gwadar), and Sri Lanka (Colombo and Hambantota), as well as Israel (Haifa) and Greece (Piraeus).

The steady growth of Chinese involvement in foreign ports has spurred widespread anxiety that commercial control over these ports could be used to advance China’s military and strategic interests. Thus far, only one of these ports has become home to a Chinese military base. The new port, along with the military base, was opened in Djibouti in 2017, two years after Chinese officials had announced their intention to establish a

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<sup>15</sup> Xi Jinping, “Promote Friendship Between Our People and Work Together to Build a Bright Future,” Astana, Kazakhstan, September 7, 2013, [http://hk.ocmfa.gov.cn/eng/jbwzlm/xwdt/wsyw/201309/t20130918\\_7781702.htm](http://hk.ocmfa.gov.cn/eng/jbwzlm/xwdt/wsyw/201309/t20130918_7781702.htm); and Xi Jinping, “Speech to the Indonesian Parliament,” Jakarta, Indonesia, October 2, 2013, [http://www.asean-china-center.org/english/2013-10/03/c\\_133062675.htm](http://www.asean-china-center.org/english/2013-10/03/c_133062675.htm).

<sup>16</sup> Isaac B. Kardon and Wendy Leutert, “Pier Competitor: China’s Power Position in Global Ports,” *International Security* vol. 46, no. 4 (2022).

logistics facility to support naval operations in the region.<sup>17</sup> Later that year, a Chinese port operator acquired a 99-year lease to operate the port of Hambantota in exchange for a large payment to the government of Sri Lanka, which was facing a debt crisis.

Since then, no Chinese military base has been set up at Hambantota. However, the Sri Lankan decision to grant long-term control over the port to a state-owned Chinese company led many observers to worry that China was using financial leverage to achieve strategic gains, especially in the Indian Ocean region. For example, a report published by the Asia Society Policy Institute in 2020 argued that Chinese investments in Asian ports amounted to “weaponizing the Belt and Road Initiative.”<sup>18</sup> Moreover, it highlighted two port projects in Southeast Asia—one in Cambodia, the other in Myanmar, that would “position Beijing to challenge transiting military vessels” and “serve as useful platforms to collect intelligence on the U.S. Navy and allied military assets.”<sup>19</sup> This view was endorsed by Admiral (ret.) Samuel Locklear, who served as commander of Pacific Command from 2012 to 2015.<sup>20</sup>

In the same year, the Pentagon’s annual China Military Power report highlighted for the first time the possibility that China was using the Belt and Road Initiative (BRI) to expand its military access to overseas ports. It asserted that BRI “projects could create potential military advantages,” and argued that China is trying to establish a “more robust overseas logistics and basing infrastructure to allow the PLA [People’s Liberation Army] to project and sustain military power at greater distances.”<sup>21</sup> The report specifically named several Southeast Asian countries as key Chinese targets for new logistics facilities and called the Pacific Islands an area of “focus.” These claims have been repeated in the 2021 and 2022 reports.<sup>22</sup>

Even though China has not opened any new overseas military bases since 2017, there are three reasons to believe that it continuing to pursue them. First, there is abundant evidence that such a project is underway in Cambodia, whose Ream Naval Base is being expanded and upgraded. Although there are debates about the operational significance of

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<sup>17</sup> Erica Downs, Jeffrey Becker and Patrick deGategno, “China’s Military Support Facility in Djibouti: The Economic and Security Dimensions of China’s First Overseas Base,” CNA, July 2017, [https://www.cna.org/archive/CNA\\_Files/pdf/dim-2017-u-015308-final2.pdf](https://www.cna.org/archive/CNA_Files/pdf/dim-2017-u-015308-final2.pdf).

<sup>18</sup> Daniel R. Russel and Blake H. Berger, *Weaponizing the Belt and Road Initiative* (New York: Asia Society Policy Institute, 2020).

<sup>19</sup> Russel and Berger, *Weaponizing the Belt and Road Initiative*, p. 36.

<sup>20</sup> Daniel Russel and Samuel Locklear, “China Is Weaponizing the Belt and Road. What Can the US Do About It?” *The Diplomat* (October 22, 2020), <https://thediplomat.com/2020/10/china-is-weaponizing-the-belt-and-road-what-can-the-us-do-about-it/>.

<sup>21</sup> Department of Defense, *Military and Security Developments Involving the People’s Republic of China 2020* (Washington, DC: Department of Defense, 2020), p. 128.

<sup>22</sup> Department of Defense, *Military and Security Developments Involving the People’s Republic of China 2021*, p. 131, and *Military and Security Developments Involving the People’s Republic of China 2022*, p. 144.

a future Chinese naval presence at this small base, in 2022 the Department of Defense (DOD) declared bluntly that it “will be the first PRC overseas base in the Indo-Pacific.”<sup>23</sup>

Second, independent analysts have found evidence that supports DOD’s repeated assertions that China’s military is seeking to acquire bases and logistics facilities overseas. In a recent study on China’s “global basing ambitions,” RAND acknowledged “uncertainty”<sup>24</sup> about those ambitions but concluded that a “growing overseas PLA presence is not a matter of if, but when.”<sup>25</sup> It also found that the Indo-Pacific, especially Southeast Asia, are among the most attractive locations for new Chinese military bases. After assessing more than 100 countries for their “desirability” and “feasibility” as locations for Chinese bases, it found four countries that scored “high” on both dimensions: Cambodia, Myanmar, Bangladesh, and Pakistan. Many others are considered less feasible for political or economic reasons, but still highly desirable; these include nearly all the other countries in Southeast Asia.<sup>26</sup> Among the Pacific Islands, Fiji and Papua New Guinea are considered less desirable than those in Southeast Asia, but just as desirable as Djibouti. However, “feasibility” depends heavily on political alignment and engagement between China and a given partner, and these can change quickly as the result of a coup (e.g., Myanmar in 2021) or an election (e.g., Philippines in 2016).

A third reason was revealed in China’s efforts to reach security deals with Pacific Island countries in 2022. In April, the Solomon Islands government signed a bilateral security agreement with China, despite resistance from Australia, the United States, and Japan, as well as domestic political opposition. The following month, China sought support for a similar agreement among the ten small Pacific Island countries that accord diplomatic recognition to Beijing rather than Taipei. Although they could not reach on a multilateral agreement, several of the small countries signed bilateral agreements with China.<sup>27</sup>

None of the parties to these agreements have said that China intends to establish a military base on their territories, and the Solomon Islands prime minister denied that such a base would be allowed. However, a leaked draft of the agreement explicitly provided

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<sup>23</sup> Department of Defense, *Military and Security Developments Involving the People’s Republic of China 2022* (Washington, DC: Department of Defense, 2022), p. 145. Doubts about the significance of this naval base are discussed in Chen Heang, “Would Access to Cambodia’s Ream Naval Base Really Benefit China?” *The Diplomat* (April 7, 2021), <https://thediplomat.com/2021/04/would-access-to-cambodias-ream-naval-base-really-benefit-china/>, and Blake Herzinger, “China’s Cambodia Naval Base Isn’t Reason to Panic,” *Foreign Policy* (June 10, 2022), <https://foreignpolicy.com/2022/06/10/cambodia-navy-china-bombing/>.

<sup>24</sup> Cristina L. Garafola, Stephen Watts, and Kristin J. Leuschner, *China’s Global Basing Ambitions: Defense Implications for the United States* (Santa Monica, CA: RAND Corporation, 2022), p. 3, [https://www.rand.org/pubs/research\\_reports/RRA1496-1.html](https://www.rand.org/pubs/research_reports/RRA1496-1.html).

<sup>25</sup> Cristina L. Garafola, et al., *The People’s Liberation Army’s Search for Overseas Basing and Access: A Framework to Assess Potential Host Nations*, (Santa Monica, CA: RAND Corporation, 2022), p. 70, [https://www.rand.org/pubs/research\\_reports/RRA1496-2.html](https://www.rand.org/pubs/research_reports/RRA1496-2.html).

<sup>26</sup> Cristina L. Garafola, et al., *The People’s Liberation Army’s Search for Overseas Basing and Access: A Framework to Assess Potential Host Nations*, (Santa Monica, CA: RAND Corporation, 2022), p. 58, [https://www.rand.org/pubs/research\\_reports/RRA1496-2.html](https://www.rand.org/pubs/research_reports/RRA1496-2.html).

<sup>27</sup> Mihai Sora, “Geopolitical Competition among the Larger Powers in the Pacific,” *Journal of International Affairs* vol.74, no. 2 (2022), p. 111-112.

that China could, with the consent of the host country, “make ship visits to, carry out logistical replacement in, and have stopover and transition [sic] in Solomon Islands”; furthermore, the agreement allowed Chinese forces to be used for the protection of “Chinese personnel and major projects.”<sup>28</sup> Regardless of whether these provisions appear in the final document, which is not yet publicly available, they offer strong evidence of Chinese intent to acquire access to logistical facilities for military use throughout Pacific Ocean.

#### **D. CONCLUSION**

Sino-American competition for access to ports and logistics facilities is intensifying in the Indo-Pacific, especially in Southeast Asia and the small Pacific Island states. China has not yet established its own military bases in the region, although it is likely to acquire access to a Cambodian naval base in the near future. However, it is using diplomatic pressure and economic incentives to gain access and enhance influence in the same places that the U.S. Navy and other services anticipate dispersing their forces. These conflicting trends create challenges for U.S. forces. One is the need to secure access for themselves while denying it to China. The other is to identify the tools that enable them to achieve these goals. The next section turns to recently created policy tools that the Navy can leverage to compete effectively with China for access in the Indo-Pacific.

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<sup>28</sup> Zongyuan Zoe Liu, “What the China-Solomon Islands Pact Means for the U.S. and South Pacific,” Council on Foreign Relations, May 4, 2022, <https://www.cfr.org/in-brief/china-solomon-islands-security-pact-us-south-pacific>.

### III. U.S. AND ALLIED RESPONSES

#### A. INTRODUCTION

This section examines the U.S. and allied response to China’s massive investments in infrastructure over the past decade. Because these investments sparked a wide array of concerns, the United States and its partners have responded by developing whole-of-government approaches. The wide range of responses highlights the breadth of the consensus across the U.S. government and among like-minded countries regarding the need to compete with China’s involvement in infrastructure development. The Navy and Marine Corps have a direct interest in the new policy tools that the U.S. government and its allies have created to compete with the BRI. They also have an intense interest in where the United States and its allies will fund new infrastructure projects. For that reason, this section delves into the principal policies, institutions, and agreements that the U.S. government has adopted since 2018 to counter Chinese influence in ports and port-related infrastructure.

#### B. CONCERNS ABOUT THE BRI

Although the BRI was officially launched in 2013, China’s banks and other businesses had already begun to make large investments in infrastructure and other sectors in the previous decade. At the same time, Chinese construction companies had begun to expand their operations abroad. The total value of their activities is difficult to estimate but also difficult to ignore. The American Enterprise Institute, which maintains a comprehensive dataset on China’s foreign investments and construction projects, has documented almost 4,000 transactions with a value of \$2.7 billion between 2005 and 2022.<sup>29</sup> A research center at Boston University has compiled a similar dataset on loans made by China’s two government-run development banks. It has documented nearly 1,100 loans worth nearly \$500 billion between 2008 and 2021.<sup>30</sup> This amount equated to more than 80 percent of World Bank lending to governments during the same period.<sup>31</sup>

The massive scale of China’s outward investment sparked enormous interest as well as concern, especially because so much of it was undertaken by state-owned banks and enterprises. On the one hand, less developed countries had enormous needs for infrastructure development that other lenders were unable to meet. In 2017, as BRI-led investments surged, a study by the Asian Development Bank determined that developing countries in Asia and the Pacific were experiencing an annual shortfall in infrastructure investment of at least \$330 billion and up to \$460 billion when the cost of climate change was included. Of these amounts, Southeast Asian and Pacific Island economies accounted

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<sup>29</sup> The full dataset is available at <https://www.aei.org/china-global-investment-tracker/>.

<sup>30</sup> The full dataset is available at <https://www.bu.edu/gdp/chinas-overseas-development-finance/>.

<sup>31</sup> Rebecca Ray, “‘Small is Beautiful’: A New Era in China’s Overseas Development Finance?” GCI Policy Brief 017 (2023), p. 2, [https://www.bu.edu/gdp/files/2023/01/GCI\\_PB\\_017\\_CODF\\_EN\\_FIN.pdf](https://www.bu.edu/gdp/files/2023/01/GCI_PB_017_CODF_EN_FIN.pdf).

for about one-third.<sup>32</sup> In these conditions, China’s ability to disburse large loans in a short period of time was attractive to political leaders, like Indonesia’s Joko Widodo and the Philippines’ Rodrigo Duterte, who had won election on their promises to accelerate investments in roads, energy, ports, and other infrastructure.

On the other hand, there was concern about the potential negative effects of unbridled lending.<sup>33</sup> One was the possibility that governments would borrow more money from Chinese banks than they could afford to repay. Another concerned the environmental and social impact of large transportation projects that were located in sensitive areas, such as fragile coastal regions or densely populated urban centers. Critics noted that BRI projects ran a high risk of such problems because they were often designed, agreed, and implemented with little transparency or oversight. And finally, of course, there was anxiety, particularly in the United States, about the strategic impact of China’s infrastructure investments, especially those that could serve as ports or logistics facilities for the PLA Navy (PLAN).<sup>34</sup>

### C. JAPAN’S RESPONSE TO THE BRI

As these concerns mounted, Japan, the United States, and other countries began to develop financial and diplomatic initiatives to counter Chinese influence by offering alternative sources of financing for similar infrastructure projects. The first direct effort to compete with China’s use of infrastructure investment as a vehicle for expanding its strategic influence came from Japan, which launched the Partnership for Quality Infrastructure (PQI) in 2015.<sup>35</sup>

Japan’s initiative consisted of three complementary elements.<sup>36</sup> One was a commitment to direct a very large amount of money—up to \$110 billion during its first five years—toward the sort of hard infrastructure projects that China was promoting. Second was the promotion of a set of principles to ensure that Japan-supported projects were “high quality,” in the sense that they met social, environmental, and other standards so that they contributed to sustainable economic development in the recipient countries. Third was a diplomatic effort to win international support for the first two aims, by persuading

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<sup>32</sup> Asian Development Bank, *Meeting Asia’s Infrastructure Needs*, (Mandaluyong City, Philippines: Asian Development Bank, 2017), pp. xiv-xv.

<sup>33</sup> World Bank Group, *Belt and Road Economics: Opportunities and Risks of Transport Corridors* (Washington, DC: The World Bank, 2019); and Refinitiv, *BRI Connect: An Initiative in Numbers*, 3<sup>rd</sup> edition, *Understanding risks and rewards of infrastructure projects* (2020), [https://www.refinitiv.com/content/dam/marketing/en\\_us/documents/reports/belt-and-road-initiative-in-numbers-issue-3.pdf](https://www.refinitiv.com/content/dam/marketing/en_us/documents/reports/belt-and-road-initiative-in-numbers-issue-3.pdf).

<sup>34</sup> Devin Thorne and Ben Spevack, *Harbored Ambitions: How China’s Port Investments Are Strategically Reshaping the Indo-Pacific* (Washington, DC: C4ADS, 2017).

<sup>35</sup> Hidetaka Yoshimatsu, “Japan’s Export of Infrastructure Systems: Pursuing Twin Goals Through Developmental Means,” *The Pacific Review* 30, no. 4 (2017); and Hong Zhao, “China–Japan Compete for Infrastructure Investment in Southeast Asia: Geopolitical Rivalry or Healthy Competition,” *Journal of Contemporary China* 28, no. 118 (2019).

<sup>36</sup> See, for instance, this presentation on “Quality Infrastructure Investment: Global Standards and New Finance,” by Hiroto Izumi, an adviser to Japan’s prime minister, April 14, 2017, <https://www.mofa.go.jp/mofaj/files/000252520.pdf>.

international and regional organizations to adopt a set of principles for high quality infrastructure and make investments that reflect those principles.

This diplomatic initiative was embedded in Japan's broader effort to promote the concept of a "free and open Indo-Pacific" and, thus, was aligned with a growing U.S. determination to counter China's expanding influence in the same region.<sup>37</sup> At successive meetings between 2016 and 2019, Japan succeeded in persuading the Group of Seven (G-7), the members of Asia-Pacific Economic Cooperation (APEC), and finally the Group of 20 (G-20) to adopt principles for high quality infrastructure investment that were substantially similar to the ones it had adopted domestically. Since then, the G-20 principles have been embedded in the work of leading international organizations such as the World Bank and the Organization for Economic Co-operation and Development (OECD).<sup>38</sup>

Japan's commitment to employ infrastructure investment as a tool to curb China's influence has enjoyed success by giving countries an alternative to Chinese funding. Some of the most notable examples are found in the port sector. In 2014, China had nearly struck a deal with Bangladesh to finance and build a deep-sea port at Sonadia. This port would have relieved pressure on the country's overused and heavily silted riverine port at Chittagong and advanced China's interest in constructing the maritime silk road. Yet after four years of talks with China, Bangladesh reached an agreement with Japan to construct a similar deep-sea port at Matarbari and ended its negotiations with China. This decision reflected the more favorable economic terms offered by Japan as well as geopolitical pressure from members of the Quadrilateral Dialogue (Quad).<sup>39</sup>

Other examples are less dramatic but illustrate the extent to which Japan has been able to assert its influence in critical ports by providing alternatives to China, even in those countries where Western security analysts have warned that China is most likely to secure control over the ports it builds. The most notable cases include a proposed port at Koh Kong in Cambodia, as well as the ports of Colombo and Hambantota in Sri Lanka.<sup>40</sup>

More than a decade since the start of the BRI, no port has been built at Koh Kong and, as a result, Sihanoukville remains Cambodia's only deep-sea port. During that time, Japan financed major expansions of the port, including a new container terminal that increased the port's capacity by 50 percent. Moreover, when the Cambodian state-owned port

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<sup>37</sup> Hidetaka Yoshimatsu, "Japan's Strategic Response to China's Geo-Economic Presence: Quality Infrastructure as a Diplomatic Tool," *The Pacific Review* 36, no. 1 (2021): 148-176; Aurelio Insisa and Giulio Pugliese, "The Free and Open Indo-Pacific Versus the Belt and Road: Spheres of Influence and Sino-Japanese Relations," *The Pacific Review* 35, no. 3 (2022): 557-585.

<sup>38</sup> On the World Bank's commitment to these principles, see <https://www.worldbank.org/en/programs/quality-infrastructure-investment-partnership/qii-principles>; and on the OECD, see <https://www.oecd.org/dev/quality-infrastructure-development.htm>.

<sup>39</sup> Bhumitra Chakma, "The BRI and Sino-Indian Geo-Economic Competition in Bangladesh: Coping Strategy of a Small State," *Strategic Analysis*, 43, no. 3 (2019); and Sudha Ramachandran, "China's Sinking Port Plans in Bangladesh," *China Brief* vol. 16, no. 10 (2016), <https://jamestown.org/program/chinas-sinking-port-plans-in-bangladesh/>.

<sup>40</sup> Thorne and Spevack, *Harbored Ambitions*.

operator went public in 2017, Japan’s international aid agency (known as the Japan International Cooperation Agency, JICA) bought 13.5 percent of the company’s share. JICA later transferred those shares to a Japanese company, Kamigumi, which remains the largest minority shareholder.<sup>41</sup>

In addition to constructing an entirely new port at Hambantota, China has also funded a project to reclaim sprawling areas from the sea around Colombo and expand that city’s international port. Neither Japan nor other countries have been able to displace China from those sites. But in 2019, Japan and India reached a deal with the government of Sri Lanka to redevelop a container terminal adjacent to one operated by a Chinese state-owned company. Following a change in government, Sri Lanka canceled this agreement in 2021, but another change in government in 2022 has led to fresh consideration of Japan’s interest in the project. In the meantime, an Indian company was allowed to form a joint venture with local partners to manage another terminal in Colombo, partly as compensation for being removed from the first project. Although Japan has not yet succeeded in making an investment in this port, it demonstrated its ability to offer a credible alternative to Chinese lenders. In addition, it highlighted the potential benefits that members of the Quad can achieve by cooperating with each other to invest in infrastructure projects in third countries.<sup>42</sup>

#### **D. U.S. RESPONSES TO THE BRI**

The United States moved more slowly than Japan to create new mechanisms to compete with China’s global infrastructure investment drive. However, during the past several years, the Trump and Biden administrations, with strong support from Congress, have established new programs and policies to address this challenge directly. Moreover, both administrations launched new multilateral initiatives to deepen cooperation with allies and partners, especially in the Indo-Pacific. These developments reflect the emergence of a broad, bipartisan consensus on the need to compete vigorously with China’s use of infrastructure as a tool for expanding its influence and access in locations that are strategically significant to the United States. This section begins by identifying the three most important changes in U.S. infrastructure investment policy, and then turns to the three main efforts to promote multilateral cooperation in the Indo-Pacific.

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<sup>41</sup> Kenji Kawase, “Cambodia’s biggest port sees China coveting Japan’s lead role,” *Nikkei Asia*, August 3, 2018), <https://asia.nikkei.com/Business/Company-in-focus/Cambodia-s-biggest-port-sees-China-coveting-Japan-s-dominant-role>; Tomoo Yatsunami, “Japan bankrolls Sihanoukville Port expansion,” *Journal of Commerce*, (August 8, 2017), [https://www.joc.com/port-news/asian-ports/japan-bankrolls-sihanoukville-port-expansion\\_20170808.html](https://www.joc.com/port-news/asian-ports/japan-bankrolls-sihanoukville-port-expansion_20170808.html); and, Harrison White, “Sihanoukville Autonomous Port annual profit rises 252% in 2021,” *Cambodian Investment Review* (February 18, 2022), <https://cambodiainvestmentreview.com/2022/02/19/sihanoukville-autonomous-port-annual-profit-rises-252-in-2021/>.

<sup>42</sup> Insisa and Pugliese, “The Free and Open Indo-Pacific Versus the Belt and Road”; and “Sri Lanka to redevelop East Container Terminal after ruling out sale,” *Port Technology* (January 19, 2021) <https://www.porttechnology.org/news/sri-lanka-to-redevelop-east-container-terminal-after-ruling-out-sale/>; R.M.M. Lilani, “Sri Lanka’s dwindling foreign policy: ECT back to Japan considered,” *Colombo Gazette* (December 9, 2022), <https://colombogazette.com/2022/12/09/sri-lankas-dwindling-foreign-policy-ect-back-to-japan-considered/>.

In 2018, the U.S. Congress passed a law that was aimed specifically at expanding the U.S. capability to invest in infrastructure in low income, developing countries like those targeted by China’s BRI. The new law, known as the BUILD (Better Utilization of Investments Leading to Development) Act, merged two existing entities to create a new one with broader authority and a far larger budget. The International Development Finance Corporation (DFC) absorbed the functions and authority of two other entities, the Overseas Private Investment Corporation (OPIC) and the Development Credit Authority (DCA); the latter had been part of the U.S. Agency for International Development (USAID).

DFC’s mandate, mission, and budget are significantly different from its predecessors and much more suited to competing with China over infrastructure development. Like OPIC and DCA, DFC is required by law to pursue traditional economic development goals, such as poverty reduction. In addition, however, the law requires that DFC “advance the foreign policy interests of the United States,” and “be guided by overall United States foreign policy, development, and national security objectives.”<sup>43</sup>

This requirement has been a source of concern in the development policy community, which fears that foreign policy concerns may diminish the DFC’s focus on economic development needs.<sup>44</sup> Yet legislative intent regarding the need to prioritize national security interests over development objectives, especially competition with China and Russia, was made clear at the end of 2019 when Congress adopted the European Energy Security and Diversification Act. In this measure, Congress permitted DFC to lend money to high income countries as long as it was “necessary to preempt or counter efforts by a strategic competitor of the United States to secure significant political or economic leverage or acquire national security-sensitive technologies or infrastructure in a country that is an ally or partner of the United States.”<sup>45</sup> This legislative change made it possible for DFC to lend \$300 million to a fund that will make energy and infrastructure investments in 12 Central and Eastern European countries.<sup>46</sup>

To ensure that these two aims—development and foreign policy—receive consideration, Congress required that DFC be overseen by a board that includes the secretaries of State, Treasury, and Commerce, as well as the administrator of USAID. However, it does not include representation from the Department of Defense or National Security Council. These interests are intended to be accommodated in a staff-level forum, which meets

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<sup>43</sup> “Better Utilization of Investments Leading to Development Act of 2018,” Section 1411, [https://www.dfc.gov/sites/default/files/2019-08/BILLS-115hr302\\_BUILDAct2018.pdf](https://www.dfc.gov/sites/default/files/2019-08/BILLS-115hr302_BUILDAct2018.pdf).

<sup>44</sup> Clemence Landers, Scott Morris, Charles Kenny, Nancy Lee, and Jocilyn Estes, “Is DFC Going To Be a Development Finance Institution or a Foreign Policy Bank?” Center for Global Development, March 25, 2021, <https://www.cgdev.org/blog/dfc-going-be-development-finance-institution-or-foreign-policy-bank>.

<sup>45</sup> “European Energy Security and Diversification Act of 2019,” pp. 1771-1772, <https://appropriations.house.gov/sites/democrats.appropriations.house.gov/files/BILLS-116HR1865SA-RCPI16-44%20%281%29.PDF>.

<sup>46</sup> “DFC and the Three Seas Initiative Investment Fund Agree to Term Sheet for up to \$300 Million in Financing,” June 20, 2022, <https://www.dfc.gov/media/press-releases/dfc-and-three-seas-initiative-investment-fund-agree-term-sheet-300-million>.

regularly. This is known as the Development Finance Coordination Group, and DFC reported to Congress that this would be “be the primary forum to capture expertise and equities on matters related to . . . development policy, and national security.”<sup>47</sup> It is not known whether this group typically includes representatives from defense-related agencies.

To pursue its economic development and foreign policy aims, the DFC is authorized to make loans and equity investments, which are intended to catalyze additional investment by the private sector. In addition, it is authorized to invest in partnership with foreign development finance agencies. Since it began operation in 2019, its budget and investment portfolio have grown substantially. DFC reported that it approved transactions worth \$6.7 billion in FY2021 and a record \$7.4 billion in FY2022.<sup>48</sup>

Although DFC priorities include infrastructure investment in the Indo-Pacific as well as strategic competition with China, it has not yet invested in ports or port-related projects in the region. This is somewhat surprising, since it has invested in ports elsewhere in the world. In the first quarter of FY2023, DFC announced that it had approved a loan of \$150 million to “expand and modernize” a port in Ecuador.<sup>49</sup> This was the first port project the new agency had chosen to fund, but it inherited a small portfolio of port-related investments made by its predecessor at the time DFC was being established. In 2019, OPIC had invested nearly \$25 million in a container and oil terminal at a port in Mauritania; nearly \$6 million to expand a mineral port in Gabon; and \$50 million to expand a Black Sea port in Georgia.<sup>50</sup>

DFC leaders have repeatedly emphasized in their annual budget justifications to Congress that Southeast Asia and the Pacific are among the agency’s highest priority regions.<sup>51</sup> This is reflected in the large commitments it has made in the region. In FY2022, it announced investments worth more than \$2 billion in about 50 projects throughout the Indo-Pacific. Over the first three fiscal years of DFC’s existence, it committed nearly \$4 billion to more than 120 projects in the region. By far, the largest number are in India, where DFC approved 62 projects valued at over \$2.27 billion. But DFC has also committed more than \$250 million to projects in Vietnam and \$160 million to projects in

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<sup>47</sup> “Coordination Report,” July 31, 2019, pp. 5-6, [https://www.dfc.gov/sites/default/files/2019-10/CoordinationReport\\_Shelby\\_7\\_31\\_19.pdf](https://www.dfc.gov/sites/default/files/2019-10/CoordinationReport_Shelby_7_31_19.pdf).

<sup>48</sup> “Testimony of DFC CEO Scott Nathan to the House Committee on Foreign Affairs,” June 14, 2022, <https://www.dfc.gov/media/speeches-testimony/testimony-dfc-ceo-scott-nathan-house-committee-foreign-affairs>; and, “DFC Marks Largest Year with More Than \$7.4 Billion Committed in FY 2022,” November 15, 2022, <https://www.dfc.gov/media/press-releases/dfc-marks-largest-year-more-74-billion-committed-fy-2022>.

<sup>49</sup> “DFC Approves More Than \$465 Million of Investments Including in Infrastructure, Health Security, and Small and Medium Sized Businesses in Q1 of FY 2023,” December 29, 2022, <https://www.dfc.gov/media/press-releases/dfc-approves-more-465-million-investments-including-infrastructure-health>.

<sup>50</sup> Information on these projects can be found at <https://www.dfc.gov/our-impact/all-active-projects>.

<sup>51</sup> Those reports are available at <https://www.dfc.gov/media/speeches-testimony>.

Indonesia. Throughout the region as a whole, its entire portfolio of projects is valued at \$6.6 billion.<sup>52</sup>

Among DFC's most notable deals is a joint effort with Japan and Australia to finance an Australian company's acquisition of a telecommunications company that provides services in Papua New Guinea, Fiji, and other Pacific Island countries.<sup>53</sup> This investment, which was approved in 2022, is intended to support the modernization of the region's information technology infrastructure and ensure it remains out of China's control. It complements another project that DFC financed in 2020. This project will support the construction and operation of a submarine communication cable that will stretch from Singapore to the United States, with links to Southeast Asian and Pacific Island territories.<sup>54</sup>

These projects highlight the intensification of great power competition in the Pacific Islands, which are located along the southern end of the Second Island Chain. This competition became apparent in 2018, when Papua New Guinea hosted the annual summit meeting of APEC leaders. At the time, U.S.-China relations were increasingly tense because of differences over trade and U.S. criticism of China's BRI. In response to rising concern that China would leverage its economic influence to gain control over ports in that country, Vice President Mike Pence announced that the United States and Australia would jointly redevelop a PNG naval base on Manus Island where, the Australian defense minister predicted, Australian navy vessels would be based.<sup>55</sup>

Since then, the United States has developed two additional policy tools for competing more effectively with China for influence and access in this region. One stems from the Global Fragility Act, which Congress passed in 2019. The purpose of this legislation is to adopt a long-term, multifaceted approach to strengthening the resilience of a small group of fragile states in order to reduce the potential for extremism and violence. To support this approach, the law authorized expenditures up to \$200 million per year for up to ten years. In 2022, the Biden Administration released its Strategy to Prevent Conflict and Promote Stability and named the countries that had been selected to receive U.S. assistance.<sup>56</sup> Among these is Papua New Guinea, whose population of at least nine million people makes it the most populous country in the Pacific and whose location just east of Indonesia and north of Australia makes it strategically important.

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<sup>52</sup> "At Indo-Pacific Business Forum DFC Announces Active Commitments Across Region Have Reached \$6.6 Billion," January 12, 2023, <https://www.dfc.gov/media/press-releases/indo-pacific-business-forum-dfc-announces-active-commitments-across-region>.

<sup>53</sup> "United States-Australia-Japan Joint Statement on Cooperation on Telecommunications Financing," November 22, 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/11/15/united-states-australia-japan-joint-statement-on-cooperation-on-telecommunications-financing/>.

<sup>54</sup> Project documentation is available at <https://www.dfc.gov/sites/default/files/media/documents/9000093543.pdf>.

<sup>55</sup> "Remarks by Vice President Pence at the 2018 APEC CEO Summit, Port Moresby, Papua New Guinea," November 16, 2018, <https://trumpwhitehouse.archives.gov/briefings-statements/remarks-vice-president-pence-2018-apec-ceo-summit-port-moresby-papua-new-guinea/>.

<sup>56</sup> "United States Strategy to Prevent Conflict and Promote Stability," April 1, 2022, <https://www.state.gov/united-states-strategy-to-prevent-conflict-and-promote-stability/>.

At this point, it is too soon to know exactly what assistance will be offered to that country. However, it is clear that the United States is committed to a decade-long effort to enhance PNG's internal stability in ways that will involve engagement with that country's security sector. Moreover, the U.S. military, including the Navy, are expected to play a role in implementing this strategy, which explicitly states that the "United States military will enhance its ability to support this Strategy through small-footprint, coordinated, partner-focused activities."<sup>57</sup>

In 2022, another major policy innovation aimed at strengthening U.S. relations with Pacific Island countries and countering China's influence was announced. In September, President Joe Biden hosted the first summit of Pacific Island leaders at the White House, where he announced the first-ever "national U.S. strategy for the Pacific Islands," known as the Pacific Partnership Strategy.<sup>58</sup> From the start, the strategy make clear that the United States has "an interest in ensuring that growing geopolitical competition does not undermine the sovereignty and security of the Pacific Islands, of the United States, or of our allies and partners." Toward that end, the strategy commits the United States to increasing its engagement with countries in the region by increasing the number of diplomatic and military personnel there. It also acknowledges that Pacific Island countries face major challenges, including a "climate crisis, and existential threat," as well as "challenges to security and sovereignty, including in the maritime domain."<sup>59</sup>

Like the new program to support Papua New Guinea under the terms of the Global Fragility Act, this initiative is too new to be able to identify specific programs, processes, or funding for port-related infrastructure of interest to the Navy. However, the Administration did promise that the U.S. Trade and Development Agency (USTDA) would "mobilize more than \$400 million" to support projects in the Pacific under its Global Partnership for Climate Smart Infrastructure.<sup>60</sup> Most of these appear aimed at improving energy supplies rather than ports. However, reliable, climate-resilient energy is valuable to the Navy; and, since ports are vulnerable to rising sea levels due to climate change, it is possible that some of these "climate smart infrastructure" investments will be directed at ports.

In January 2023, USTDA launched the Pacific Island Strategic Infrastructure Initiative and called for proposals for projects in a dozen countries in areas that include "port, railway and airport development and expansion."<sup>61</sup> The agency expects that capital

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<sup>57</sup> See Section 4, Part c, <https://www.state.gov/united-states-strategy-to-prevent-conflict-and-promote-stability/#tools-c>.

<sup>58</sup> "FACT SHEET: Roadmap for a 21st-Century U.S.-Pacific Island Partnership," September 29, 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/09/29/fact-sheet-roadmap-for-a-21st-century-u-s-pacific-island-partnership/>.

<sup>59</sup> "Pacific Partnership Strategy of the United States," September 2022, pp. 5-6, <https://www.whitehouse.gov/wp-content/uploads/2022/09/Pacific-Partnership-Strategy.pdf>.

<sup>60</sup> FACT SHEET: Roadmap for a 21st-Century U.S.-Pacific Island Partnership," September 29, 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/09/29/fact-sheet-roadmap-for-a-21st-century-u-s-pacific-island-partnership/>.

<sup>61</sup> "Call for Proposals: Pacific Island Strategic Infrastructure Initiative," January 11, 2023, <https://ustda.gov/call-for-proposals-pacific-island-strategic-infrastructure-initiative/>.

expenditure for individual projects will range from \$10 million to \$250 million. At the summit meeting in September, the Administration also announced much smaller sums that could be spent on transportation infrastructure improvement, but these too small to be relevant to Navy interests.

These three U.S. initiatives—DFC’s investment in infrastructure, aid to Papua New Guinea under the Global Fragility Act, and the collection of Pacific Partnership programs—have been embedded in a broader set of initiatives that the United States is pursuing with its allies and partners in the region. For the most part, these have little direct relevance to the Navy, since they do not present a menu of tools that the Navy can access directly. However, three are worth noting because they highlight the breadth of agreement among these countries on the need to compete with China by investing diplomatic and economic resources in developing stronger relations with countries in the Pacific.

The first is the Blue Dot Network (BDN), which the United States established with Japan and Australia in 2019.<sup>62</sup> It was intended to create a mechanism to certify infrastructure projects that meet a set of standards, based on the principles adopted by the G-7 and G-20 (see above), and thereby make it easier for developing countries to convince private investors to put their money into those projects. The BDN acknowledged that capitalist economies like the United States and Japan could not simply direct state-owned banks to invest in projects, as China can. Instead, they need to mobilize private investment for that purpose. Certification of compliance with BDN standards was intended to incentivize private investment. In 2022, the OECD embraced these aims and produced a set of policy options from which the BDN could choose.<sup>63</sup> Progress, in other words, has been slow and has not yet resulted in a working mechanism for certifying that actual infrastructure projects meet a specific set of standards.

The second is the Partnership for Global Infrastructure and Investment, which was proposed by President Biden and adopted by the G-7 in 2022. This is an ambitious initiative “to mobilize \$600 billion by 2027 in global infrastructure investments” as well as other funds from sources such as multilateral development banks and countries other than the members of the G-7.<sup>64</sup> Again, like other initiatives described above, this one is not yet fully established and therefore is difficult to assess. However, in contrast to the BRI, with which it is intended to compete, it appears more likely to favor soft over hard infrastructure, and small and medium scale projects (\$500 billion or less) rather than “megascala” projects (\$1 billion or more).<sup>65</sup> Moreover, the insistence on “high quality”

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<sup>62</sup> “Blue Dot Network,” <https://2017-2021.state.gov/blue-dot-network/index.html>.

<sup>63</sup> OECD, *The Blue Dot Network: A proposal for a global certification framework for quality infrastructure investment* (2002), <https://www.oecd.org/daf/blue-dot-network-proposal-certification.pdf>

<sup>64</sup> “FACT SHEET: President Biden and G7 Leaders Formally Launch the Partnership for Global Infrastructure and Investment,” June 26, 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/06/26/fact-sheet-president-biden-and-g7-leaders-formally-launch-the-partnership-for-global-infrastructure-and-investment/>.

<sup>65</sup> Oyintarelado Moses and Keren Zhu, “The Belt and Road Initiative and the Partnership for Global Infrastructure and Investment: Global Infrastructure Initiatives Compared,” Boston University Global

projects implies that the PGII will favor projects that meet economic, social, and governance aims that have been less important in the selection of BRI projects.

A third initiative, also very new, is known as Partners in the Blue Pacific. It was launched in June 2022 by the United States along with Australia, Canada, New Zealand, and the United Kingdom, and is intended to advance their shared goals of “prosperity, resilience, and security” in the Pacific. Toward that end, these countries plan to coordinate efforts among themselves to ensure that their efforts are aligned with the regional countries’ priorities, “including the climate crisis, connectivity and transportation, [and] maritime security.”<sup>66</sup> Although this initiative has not explicitly been designed to enhance investment in infrastructure, its commitment to improving transportation suggests that it will, eventually, take up the infrastructure challenge.

## **E. CONCLUSION**

The United States, together with its allies in Europe and Asia, have launched several initiatives since 2015 to counter China’s use of infrastructure investment to secure access and enhance its influence in the Indo-Pacific. Most of these have been established in the past year and therefore are not able to make or even shape infrastructure investments today. The main exceptions are Japanese and U.S. programs to provide loans and technical assistance. In the United States, this means the DFC, whose resources and investment portfolio have been expanding. For the Navy and Marine Corps, the DFC provides the most likely resource for funding ports and port-related projects in the Indo-Pacific, because its priorities overlap with their own. Specifically, the DFC is mandated to make investments that support U.S. national security, it prioritizes investment in the Indo-Pacific, and it has a track record (albeit a limited one) of investing in ports elsewhere in the world.

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Development Policy Center, November 2022,  
[https://www.bu.edu/gdp/files/2022/11/GCI\\_WP\\_026\\_BPG\\_FIN.pdf](https://www.bu.edu/gdp/files/2022/11/GCI_WP_026_BPG_FIN.pdf).

<sup>66</sup> Quotations in this paragraph are found in “Statement by Australia, Japan, New Zealand, the United Kingdom, and the United States on the Establishment of the Partners in the Blue Pacific (PBP),” June 24, 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/06/24/statement-by-australia-japan-new-zealand-the-united-kingdom-and-the-united-states-on-the-establishment-of-the-partners-in-the-blue-pacific-pbp/>.

## IV. PART FOUR: OPPORTUNITIES AND RECOMMENDATIONS

This study identified U.S. and multilateral initiatives that are intended to promote infrastructure investments in the Indo-Pacific. It assessed the extent to which each initiative can be used to meet strategic goals through port and port-related investments. It found that most new initiatives lack resources, favor development priorities over strategic ones, and prioritize investment in sectors other than physical infrastructure.

However, the DFC is quite different. By law, it must consider development and foreign policy priorities. Its budget is growing rapidly and is set to reach \$1 billion in FY23. In addition, it makes investments in critical infrastructure, especially to enhance resilience to climate change in low and lower-middle income countries. Countries along the First and Second Island Chains meet these criteria and seek these investments.

Like the DFC, the Navy prioritizes investments to promote resilience in the face of climate change.<sup>67</sup> In fact, there appears to be extensive overlap between the Navy's goals in its climate strategy and the DFC's goals. Each seeks to work with international partners to enhance the resilience of critical infrastructure. Crucially, many of the small Pacific Island states have identified climate change as their most pressing threat.

This study also found extensive overlap between the Navy's prioritization of the Indo-Pacific and other U.S. government efforts to provide development assistance to low and lower-middle income countries in that region. Two efforts are notable. One is the Pacific Partnership Strategy, which aims to bolster political, diplomatic, and economic ties with the small Pacific Island countries. This is supported by an initiative between the United States and key allies (Australia, Canada, Japan, New Zealand, and the United Kingdom) called "Partners in the Blue Pacific." The second is a 10-year program to strengthen Papua New Guinea, which is home to 90 percent of the people in the Pacific Islands and occupies a strategic location north of Australia and east of the Solomon Islands.

This study recommends that Navy leaders identify ports of strategic concern in this region; convey their priorities to the established interagency process known as the Development Finance Coordination Group; and advocate for investments that support these priorities. Projects that enhance the resilience of ports and port-related infrastructure to the impact of climate, especially in areas known as the first and second island chains, are most likely to obtain support in the interagency process.

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<sup>67</sup> Department of the Navy, "Climate Action 2030," May 2022, <https://www.navy.mil/Portals/1/Documents/Department%20of%20the%20Navy%20Climate%20Action%202030%20220531.pdf>.

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